MOUNTAIN PROVINCE MINING INC.

1998 ANNUAL REPORT

Mountain Province Mining began its quest for minerals in 1986, initially as a gold exploration venture. Amidst Canada's great diamond rush of 1991-1992, the Company acquired a 50% interest in the AK/CJ property, a large claim group in the Northwest Territories. The first diamond-bearing kimberlite pipe was discovered on the property in 1995, with three additional pipes discovered in 1997. As a result, the AK/CJ property has emerged as one of North America's premier diamond deposits. The property is operated as a joint venture with Monopros Limited, a subsidiary of De Beers Consolidated Mines Ltd.

Mountain Province continues to examine new mineral ventures throughout North America. With cash and current assets of C$6 million, the Company is adequately financed for its next level of growth.

MAY 1997

De Beers reports it has encountered a significant intersection of continuous kimberlite near the original AK-5034 diamond pipe. Analysis of drill samples reveals the pipe, called Tesla, to be the second diamondiferous pipe discovered on the AK/CJ claims.

AUGUST 1997

De Beers discovers two additional kimberlite pipes, Tuzo and Hearne, both within 1.1 kilometres of the 5034.

OCTOBER 1997

Analysis of kimberlite rock from the Hearne pipe yields 324 diamonds. Kimberlite from the Tuzo pipe yields 403 diamonds.

NOVEMBER 1997

Amalgamation completed with 444965 B.C., wholly-owned subsidiary of Glenmore Highlands Inc., which owned 40% of the AK/CJ claims. As a result, Mountain Province holds 90% of the project.

DECEMBER 1997

Analysis of second drill holes from Tuzo and Hearne reported by De Beers. Second Hearne sample yields 439 diamonds. Tuzo sample yields 294 diamonds.

APRIL 1998

Mini-bulk test samples of all four pipes completed by De Beers. Approximately 50 tonnes of kimberlite recovered from each pipe and shipped to South Africa for diamond recovery and preliminary evaluation.

MAY 1998

De Beers announces mini-bulk processing of 48 tonnes of kimberlite from the Tuzo pipe has yielded 108 carats of diamonds for a grade of 2.24 carats per tonne. The two largest stones weigh 2.34 and 1.85 carats, respectively.

JUNE 1998

De Beers announces mini-bulk processing of 62.5 tonnes of kimberlite from the Hearne pipe, 60 tonnes from the Tesla pipe and 56 tonnes from the 5034 pipe. Grades average 3.28, 0.43 and 1.81 carats per tonne, respectively.

The past year marked a period of exceptional progress for Mountain Province and its shareholders. Our AK property in Canada's Northwest Territories continued to generate commercial-grade results, and prospects for development of a successful diamond mine appear better than ever. Joint venture partner Monopros Ltd., a subsidiary of De Beers Consolidated Mines Ltd., has clearly demonstrated its faith in the property by investing C$5.0 million so far in 1998 (considerably more will be invested during the course of the year) bringing the project closer to the feasibility stage.

De Beers has more experience than any other group in the world at discovering kimberlites and diamonds, and we are most enthused by their professional, diligent approach to exploration and development. Through their efforts, the AK property has, within a year, progressed from a promising exploration venture to one of Canada's leading diamond prospects. It compares favourably with the Dia Met/BHP Ekati mine, expected to begin production this year, and the Aber/Diavik Diamond diamond project which should be in production in 2001 or 2002.

Jan Vandersande and Paul Shatzko

EVENTS OF THE PAST YEAR AND PROSPECTS FOR THE COMING YEAR POINT TO A PROSPEROUS FUTURE FOR MOUNTAIN PROVINCE SHAREHOLDERS.

Since May 1997, De Beers has discovered three new kimberlite pipes on the AK property: Tesla, Tuzo and Hearne. All are diamondiferous and lie within 1.1 kilometres of AK-5034, the original pipe discovery. Initial tonnage and grade estimates place both Tuzo and Hearne amongst the world's higher grade pipes. Tesla is of lower grade but should nonetheless contribute to overall tonnage.

De Beers conducted mini-bulk sampling of all four pipes during the spring of 1998. The 62-tonne Hearne sample contained 205 carats grading 3.28 carats per tonne, a result that compares very favorably with other significant discoveries in the Northwest Territories. In the same test, a 60-tonne sample from the Tesla pipe produced 25.9 carats and an overall grade of 0.43 carats per tonne, which was in line with earlier caustic fusion results. Additionally, 56 tonnes from the 5034 pipe produced 101 carats and graded 1.81 carats per tonne, while the Tuzo produced 108 carats from 48 tonnes, grading 2.24 carats per tonne.

The 5034 pipe, discovered in 1995, was evaluated by De Beers prior to the joint venture agreement. They established a preliminary value of approximately US$1.2 billion based on some 15 million tonnes of kimberlite grading 1.5 carats per tonne and a modeled average value of US$55 per carat.

The 5034 alone was never considered large enough to warrant the expected $500 million capital outlay to build a mine. Therefore, De Beers' primary objective has been to find more deposits in the area with sufficient value and a critical mass of approximately 40 million tonnes of kimberlite. Preliminary estimates indicate that this has been achieved with the discovery of the three additional kimberlite bodies viz. Tesla, Tuzo and Hearne (although the exact tonnage would be determined after the delineation process has been completed). Since there is a great likelihood of additional pipes being discovered on the property, the eventual tonnage is anticipated to be in excess of 40 million tonnes. If the grades and values of the four pipes continue to meet expectations, De Beers believes there is a strong potential for development of a mine.

It should be noted that a critical factor in diamond evaluation is value per carat (relating to quality of the stones), an element which, based on the small number recovered, is best modelled using the De Beers valuations and large database at present. De Beers must wait until considerably more carats have been recovered to make this determination accurately. Diamond value cannot be reliably determined from the relatively small samples available at the exploration drilling stage.

The diamonds will not be subject to a final valuation until the major bulk sampling phase is completed and at least 1,000 to 2,000 carats have been recovered from each pipe.

Beginning in July 1998, an exploration program is planned which will include drilling and indicator mineral sampling. With mini-bulk sampling of the four individual pipes now completed, we anticipate a major bulk sampling program will take place during the winter of 1998-1999. Although the expanded bulk sample depends upon continued positive results, we are confident the success of current work will allow De Beers to proceed.

While results to date from the AK property are excellent, the longer-term exploration prospects of both the AK and the adjoining CJ property are even more interesting. The AK claim block alone measures some 50 kilometres by 30 kilometres, and a large number of targets has been identified. During the summer program De Beers will explore areas where the targets appear most prospective. In addition to the indicator mineral train associated with the discoveries to date, eight additional trains of similar or even more prospective indicator minerals have been identified. De Beers has stated that the geochemistry of some of the indicator minerals is so good, in fact, that any pipes discovered are likely to be significantly diamondiferous.

Besides the favourable exploration results and large number of additional targets, other factors have contributed to De Beers' enthusiasm for the AK/CJ project. Firstly, kimberlite pipes in the AK claim area are easy to access by being close to shore and under relatively shallow water. Also, BHP has pioneered the regulatory process to establish Ekati, which is only 120 kilometres away, and this factor should improve interaction with authorities in Yellowknife and with aboriginal bands in the region.

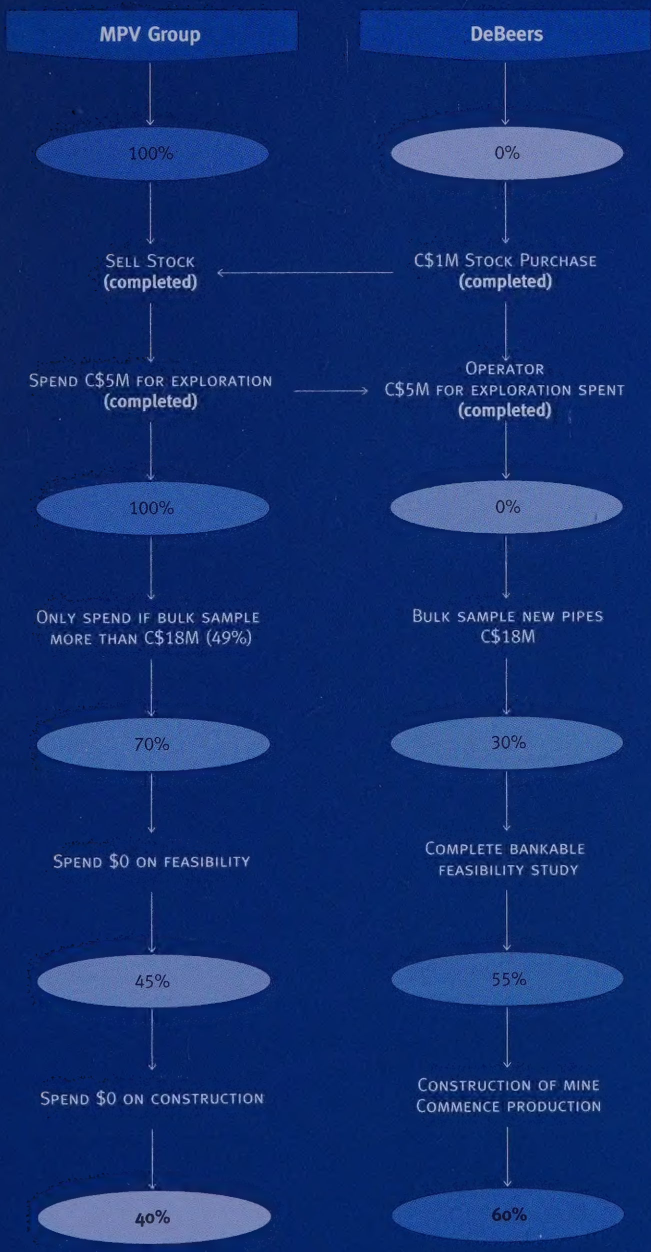
On other matters, in November 1997 the Company completed its amalgamation with 444965 B.C. Ltd. which, as the wholly-owned subsidiary of Glenmore Highlands Inc., held 40% of the AK/CJ claims. As a result, Mountain Province now holds 90% of the AK/CJ property with 10% held by Camphor Ventures. De Beers has the right to earn up to a 60% interest in the property by bringing it to production.

Mountain Province executives meeting with De Beers representatives. From left to right: Dr. Roger Clement, President & CEO, Monopros Ltd.; Dr. Paul Shatzko; Nicky Oppenheimer, Chairman, De Beers Consolidated Mines Ltd.; Dr. Jan Vandersande; and George Burne, Managing Director, De Beers Canada Corporation.

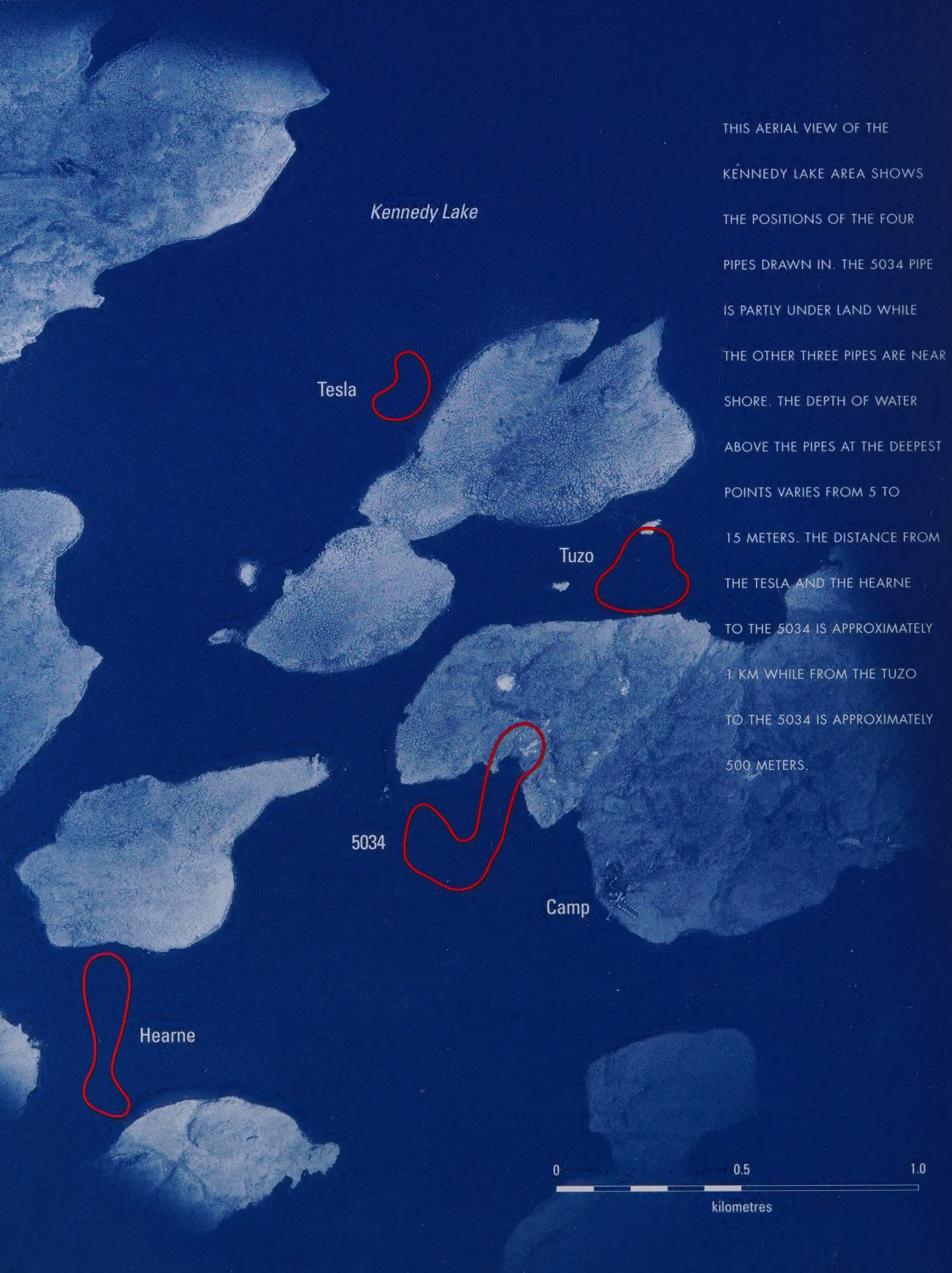
In conclusion, events of the past year and prospects for the coming year point to a prosperous future for Mountain Province shareholders. Not only have we been fortunate enough to discover one of Canada's four premier diamond deposits, we have linked up with the world's largest and most powerful diamond company to ensure that the deposit has every chance of becoming a successful mine. We would like to thank Dr. Roger Clement and his team at Monopros for their excellent work of the past year. Also, we are most grateful for the patience and faith of our shareholders during this growth phase, and we look forward to continued success.

On behalf of the Board of Directors

Paul Shatzko, Chairman
July 5, 1998



THIS DIAGRAM ILLUSTRATES KEY ASPECTS OF THE JOINT VENTURE BETWEEN THE MPV GROUP (MOUNTAIN PROVINCE AND CAMPHOR VENTURES) AND DE BEERS CONSOLIDATED MINES LTD. (THROUGH ITS WHOLLY-OWNED SUBSIDIARY, MONOPROS LTD.). IT SHOWS HOW DE BEERS CAN EARN AN INTEREST OF UP TO 60% BY SPENDING MONEY ON THE STOCK PURCHASE, BULK SAMPLING, BANKABLE FEASIBILITY STUDY AND CONSTRUCTION OF THE MINE. DE BEERS BELIEVES A BULK SAMPLE WILL COST NO MORE THAN C$18 MILLION. IF THAT AMOUNT IS EXCEEDED, THE MPV GROUP MUST CONTRIBUTE 49% TO EXPENSES OVER C$18 MILLION. A BANKABLE FEASIBILITY CAN COST AS MUCH C$25 MILLION TO C$50 MILLION, WHILE CONSTRUCTION OF THE MINE CAN RUN FROM C$500 MILLION TO C$700 MILLION.



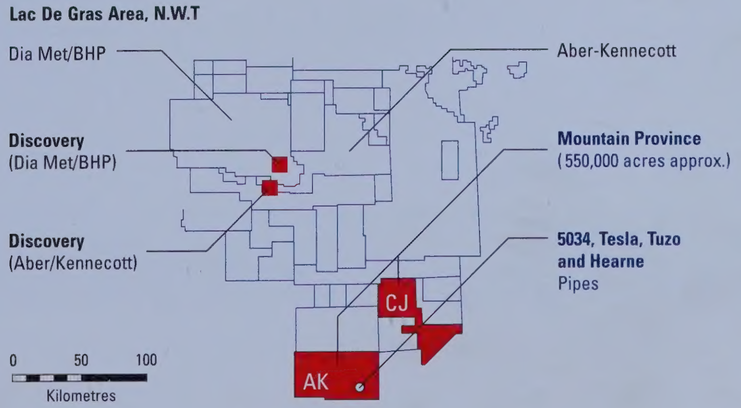
THIS AERIAL VIEW OF THE KENNEDY LAKE AREA SHOWS THE POSITIONS OF THE FOUR PIPES DRAWN IN. THE 5034 PIPE IS PARTLY UNDER LAND WHILE THE OTHER THREE PIPES ARE NEAR SHORE. THE DEPTH OF WATER ABOVE THE PIPES AT THE DEEPEST POINTS VARIES FROM 5 TO 15 METERS. THE DISTANCE FROM THE TESLA AND THE HEARNE TO THE 5034 IS APPROXIMATELY 1 KM WHILE FROM THE TUZO TO THE 5034 IS APPROXIMATELY 500 METERS.

In April 1997, Monopros flew an airborne helicopter magnetic and electromagnetic survey with 50m line spacing over the complete southern half of the AK Claims. This area contains most of the kimberlitic indicator minerals recovered so far.

The geophysicists at Monopros examined that area of the survey around the 5034 pipe carefully. The 5034 was discovered in 1995 by drilling a magnetic low at the head of the indicator train going from west to east and terminating in Kennedy Lake.

The previous operator drilled other magnetic lows in the Kennedy Lake area but no kimberlite was intersected. At Monopros they had noticed there were several electromagnetic (EM) highs in Kennedy Lake. The first one was drilled at the end of the spring 1997 drilling season (early May) and the Tesla pipe was discovered. When drilling resumed in the summer 1997 exploration program (in August) two additional EM highs were drilled resulting in the discovery of the Tuzo and the Hearne pipes.

During the 1998 winter exploration, Monopros drilled a core hole between the Tuzo and 5034 and intersected 50 meters of kimberlite (horizontally projected) approximately 100 meters northeast of the northern part of the 5034 pipe. This possible extension of the 5034 is underneath land and additional drilling during the 1998 summer exploration season will better define its approximate size and shape.



TEST SAMPLE AND BULK SAMPLE

Test Sample Procedure

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RC drilling of pipe

↓

Chips of kimberlite greater than 1mm x 1mm screen

↓

Into recovery bag. To DMS in Grand Prairie

↓

Desliming of kimberlite, then feed into DMS

↓

Concentrate with density greater than 3.1

↓

To Johannesburg, South Africa

↓

Recovery of rough diamonds

↓

Diamonds sorted by screen size, diamonds weighed

↓

Breakage studies

↓

Mineralogical studies

↓

To Kimberley, South Africa for evaluation

The test sample or mini-bulk sample of the four pipes was completed in mid-April. It consisted of reverse circulation (RC) drilling with 5 1/2 inch diameter drills to recover approximately 50 to 60 tonnes of kimberlite per pipe. The 10-15 vertical drill holes on each pipe were spaced to cover most of the surface area of each pipe hence getting representative samples of kimberlite from different parts of each body. A 1mm square screen was used as the bottom cut-off size. The results were reported late May – early June and varied from decent (Tesla with 0.43 carats per tonne), to very good (Tuzo with 2.24 and 5034 with 1.81 carats per tonne), to excellent (Hearne with 3.28 carats per tonne). Numerous larger diamonds greater than one carat were recovered which is encouraging considering the small size of the samples.

The main purpose of the test samples is to determine if the grades and values per carat are sufficient to proceed with a bulk sample this coming winter. The above mentioned grades for the four pipes are high enough that the project should now advance to the bulk sampling stage. A formal decision will

be made subsequent to complete analysis and interpretation of all the results (expected by August). The rough diamonds recovered from the four pipes will undergo breakage studies, a mineralogical examination and an evaluation. (The schematic at right illustrates the test sampling and subsequent analysis process.) De Beers will then interpret the results using their large database and proprietary models to come up with initial best estimates of grade and value per carat. It must be kept in mind that the test sample was very small and hence only a small parcel of diamonds was recovered for evaluation. The larger the test samples, the larger and more representative the parcel of rough diamonds will be. Generally, the larger diamonds (several carats and up) are randomly distributed in a pipe hence the larger the test sample the greater the probability of recovering some of them. A small parcel of diamonds may understate the actual value per carat since most of the value in a diamond deposit lies in the larger stones. The bulk sample will provide a much larger parcel of rough diamonds and hence a more accurate determination of both grade and value.

The bulk sample, which would form the basis for the pre-feasibility study, should commence in early 1999 as soon as the ice on Kennedy Lake is thick enough for supplies and equipment to be flown in and for drilling to take place. This assumes a positive decision to go ahead with the bulk sample, which should happen based on the very good grades obtained. Detailed planning of bulk sampling operations will only be carried out when the results of the test or mini-bulk samples have been fully evaluated. De Beers' preliminary views include the extraction of at least 500 tonnes of kimberlite from each body. Samples of this size should produce between 1000 and 2000 carats of diamonds using a 1mm screen bottom size cut-off from the Tuzo, 5034 and Hearne and a lesser quantity for the Tesla pipe. The current plans are to treat the extracted kimberlite in a Dense Media Separation plant (DMS) on site.

There will also be delineation drilling before and concurrent with the bulk sampling to better determine the sizes and shapes of the four pipes.

The recovered rough diamonds will then be sent to Kimberley, South Africa for an evaluation. That result plus the results of the delineation drilling and other factors will be used by De Beers to make a decision whether or not to proceed with a pre-feasibility study.

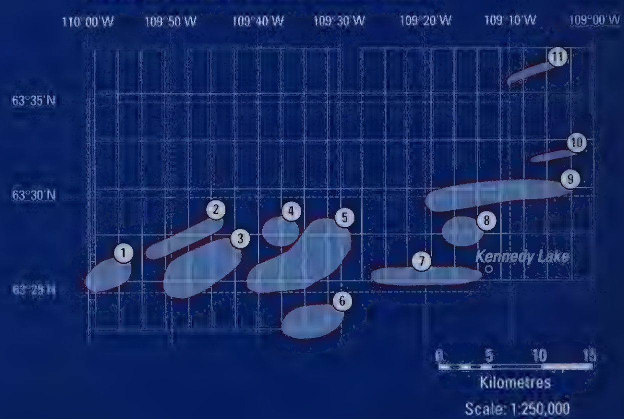
During the 1997 summer program Monopros collected 3600 till samples from both the AK and CJ Claims. The purpose of a till sample is to determine if that sample of soil contains any indicator minerals (such as garnets, ilmenites, chromites, and chrome diopsides) which originate from a kimberlite source. These indicators were formed at the same time diamonds were, deep in the earth, generally in larger numbers than diamonds. The indicators and the diamonds were carried to the surface during the kimberlite emplacement (volcanic eruption).

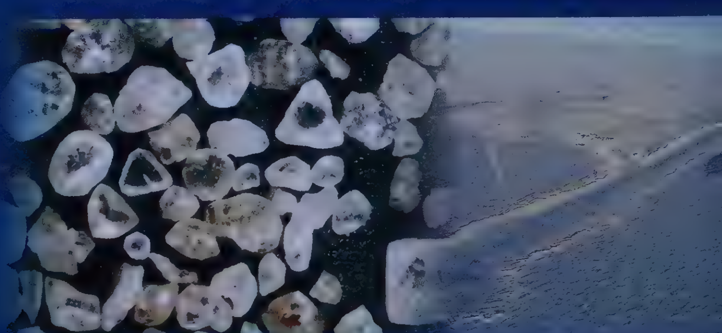
Based on the indicators recovered both by Monopros and the previous operator, Monopros has identified 11 significant clusters of kimberlite indicator minerals in the southern half of the AK Claim block (drawn in Fig. A). There could be more than one indicator train in a cluster or, less likely, clusters of indicators could combine to form a train.

Some of the trains identified in the clusters are now better defined, some are not that well cut-off, some are still quite broad at the head (where the train originates from) and some are difficult to clearly distinguish from each other.

During the 1998 summer-fall exploration season Monopros will drill the best land based geophysical anomalies in the areas of the heads of the better defined and cut-off trains. They will also take additional till samples at closer spacing at the most promising clusters to try to better define and cut-off some of the other indicator trains. The results should be available to help with the selection of drilling targets for the 1999 winter exploration program. Some or all of the kimberlite bodies believed to be associated with these trains are likely to be significantly diamondiferous based on the geochemistry of the indicator minerals (subcalsic G-10 pyropes).

FIGURE A: Undrilled Indicator Mineral Trains





DIAMONDS IN CANADA – AN UPDATE

Canada's Northwest Territories has emerged as one of the world's most active diamond exploration areas. The search for Canadian diamonds began in the early eighties, when geologist Chuck Fipke began his now famous prospecting quest across the frozen tundra, eventually locating kimberlite deposits in the Lac de Gras region in 1991. This discovery became one of the richest mineral deposits in history, in turn sparking one of the most frenetic staking rushes in modern times. In less than three years, over 200 exploration companies blanketed the region in the quest for more promising deposits. So far, only a handful of companies have made significant discoveries, including Mountain Province Mining Inc., Dia Met Minerals Ltd. and Aber Resources Ltd.

The chances of finding a viable diamond deposit are slim, but for those companies that succeed the returns can be tremendous. Currently Mountain Province, with its partner De Beers, is evaluating the commercial potential of its discoveries by mini-bulk sampling four diamondiferous pipes. Dia Met and partner BHP are developing the Ekati mine to exploit Fipke's initial discovery, and production is scheduled to begin later this year. Aber Resources, now teamed up with Diavik Diamond Mines Inc. on its Diavik project, is also expected to become a diamond producer. It appears Mountain Province Mining is third in line to become a diamond producer in the region.

Canada's future contribution to the international diamond market will be significant. In the last ten years, only two new major diamond mines have opened around the world. When the mines slated for production in the N.W.T. begin operation, Canada should rank sixth among world nations for overall diamond output. Combined, the mines will generate over US$1.0 billion a year in revenue—rich by any standard. Worldwide, approximately $17 billion is generated annually from diamond mining. By 2003, Canada's contribution could represent 10% to 15% of world production. The outlook for the diamond market is encouraging, as a greater demand than supply is expected from 2000 onward.

To the Shareholders,
Mountain Province Mining Inc.

We have audited the consolidated balance sheets of Mountain Province Mining inc. as at March 31, 1998 and 1997 and the consolidated statements of loss and deficit, deferred exploration and changes in financial position for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 1998 and 1997 and the results of its operations and changes in its financial position for the years then ended in accordance with generally accepted accounting principles. As required by the Company Act of British Columbia, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Mann, Bella & Co.

Certified General Accountants
Vancouver, B.C.
July 5, 1998

as at March 31,		1998		1997
Assets				
Current				
Cash	$	6,680,164	$	11,812,265
Trust funds		—		41,860
Accounts receivable		61,740		206,762
Marketable securities (Note 4)		58,674		145,604
Advances and prepaid expenses		49,164		32,139
		6,849,742		12,238,630
Mineral Properties (Note 5)		4,003,818		455,900
Deferred Exploration (Note 5)		30,717,844		14,830,212
Capital Assets, at cost net of accumulated amortization of $75,414 (1997 - $45,558)		110,279		114,377
Incorporation Costs		2,099		2,099
	$	41,683,782	$	27,641,218
Liabilities				
Current				
Accounts payable and accrued liabilities	$	50,863	$	168,563
Due to related parties		—		109,840
Taxes payable		18,478		—
		69,341		278,403
Shareholders' Equity				
Share Capital (Note 6)		50,094,368		32,565,638
Deficit		(8,479,927)		(5,202,823)
		41,614,441		27,362,815
	$	41,683,782	$	27,641,218

Approved by the Directors:

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT

for the years ended March 31,	1998	1997
Revenue		
Interest	$ 299,563	$ 254,744
Expenses		
Amortization	29,856	22,620
Consulting	349,591	277,588
Insurance	69,002	69,207
Interest and bank charges	2,578	2,444
Investor relations	114,160	—
Large corporation and capital taxes	57,821	22,718
Management fees	160,000	174,920
Office and miscellaneous	114,726	117,801
Professional fees	281,904	452,446
Printing	80,660	45,591
Promotion and shareholder relations	204,165	154,761
Property evaluation	16,486	—
Rent	86,438	74,155
Telephone	111,445	81,967
Trade and road shows	124,053	—
Transfer agent and regulatory fees	95,450	65,802
Travel	304,279	236,046
Wages and benefits	273,315	177,097
	2,475,929	1,975,163
Loss Before the Undernoted Items	(2,176,366)	(1,720,419)
Loss from Write-Down of Marketable Securities	(86,930)	—
Settlement Costs (Note 7)	(900,000)	—
Loss from Write-Off of Mineral Properties and Related Deferred Exploration	(113,808)	(47,848)
Net Loss for the Year	(3,277,104)	(1,768,267)
Deficit, Beginning of Year	(5,202,823)	(3,434,556)
Deficit, End of Year	$ (8,479,927)	$ (5,202,823)
Loss Per Share	$ (0.10)	$ (0.08)

The accompanying notes are an integral part of the financial statements.

for the years ended March 31,		1998		1997
Exploration				
Camp demobilization	$	100,000	$	—
Consulting and other professional services		265,677		—
Environmental work		—		119,253
Airborne and geophysical survey		2,124,169		151,469
Sampling and processing		374,247		1,830,793
Drilling		800,032		4,410,088
Travel, transportation and supplies		445,815		732,438
Report and filing fees		22,933		28,124
Camp site office and general expenses		590,803		—
		4,723,676		7,272,165
Deferred Exploration Transferred on Amalgamation (Note 3)		11,163,956		—
Deferred Exploration for the Year		15,887,632		7,272,165
Deferred Exploration, Beginning of Year		14,830,212		7,596,474
Write-Off of Deferred Exploration		—		(38,427)
Deferred Exploration, End of Year	$	30,717,844	$	14,830,212

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

for the years ended March 31,	1998	1997
Operating Activities		
Net loss for the year	$ (3,277,104)	$ (1,768,267)
Deferred exploration costs	(4,723,676)	(7,272,165)
	(8,000,780)	(9,040,432)
Items not involving cash:		
Amortization	29,856	22,620
Loss from write-off of mineral properties and related deferred exploration	113,808	47,848
Loss from write-down of marketable securities	86,930	—
	(7,770,186)	(8,969,964)
Cash provided (used) by net changes in non-cash working capital items	(81,065)	(870,008)
	(7,851,251)	(9,839,972)
Financing Activities		
Share subscriptions	—	(5,319,600)
Shares issued for cash, net of commission	5,428,730	22,882,662
Shares issued for non-cash consideration (Note 3)	12,100,000	—
Proceed from sale of marketable securities	3,000	—
	17,531,730	17,563,062
Investing Activities		
Business combination (Note 3)	(12,100,000)	—
Acquisition of mineral properties	(2,728,682)	(50,000)
Acquisition of capital assets	(25,758)	(84,188)
	(14,854,440)	(134,188)
(Decrease) Increase in Cash	(5,173,961)	7,588,902
Cash, Beginning of Year	11,854,125	4,265,223
Cash, End of Year	$ 6,680,164	$ 11,854,125
Represented by:		
Cash and short-term investments	$ 6,680,164	$ 11,812,265
Trust fund	—	41,860
	$ 6,680,164	$ 11,854,125

The accompanying notes are an integral part of the financial statements.

March 31, 1998 and 1997

1. Organization and Nature of Operations

As described in Note 3, on November 1, 1997, Mountain Province Mining Inc. merged with 444965 B.C. Ltd., resulting in the formation of a new entity which is operating under the name of Mountain Province Mining Inc.

The Company is in the process of exploring its mineral properties and has not yet determined whether these properties contain mineral reserves that are economically recoverable. The recoverability of the amount shown for mineral properties is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete exploration and development, and upon future profitable production or proceeds from disposition of such properties.

2. Summary of Significant Accounting Policies

a) **Basis of Presentation**
The consolidated financial statements include the accounts of the company and its wholly-owned subsidiary, Mountain Province Mining Corp. (U.S.A.)

b) **Deferred Exploration**
Exploration costs relating to mineral properties are deferred until the property is brought into production, at which time the deferred costs are to be amortized on a unit of production basis over proven probable reserves, or until the property is abandoned or sold, at which time the deferred costs are to be written off.

The amounts shown as mineral properties and deferred exploration represent unamortized costs to date and do not necessarily reflect present or future values.

c) **General and Administrative Expenses**
The Company charges all general and administrative expenses not directly related to exploration activities to operations as incurred.

d) **Amortization**
Capital assets are amortized over their estimated useful lives at 20% - 30% declining basis. Further, only one-half the amortization is taken on assets acquired during the year.

e) **Joint Ventures**
Joint ventures are accounted for using the equity method.

f) **Foreign Currency Translation**
Monetary assets and liabilities expressed in foreign currency are translated at rate of exchange in effect at the end of the year. Revenue and expense items are translated at the average rates for the months in which such items are recognized during the year. Exchange gains and losses arising from the translation are included in the operation.

3. Business Combination

Pursuant to an amalgamation agreement dated August 21, 1997, Mountain Province Mining Inc. ("MPV") and 444965 B.C. Ltd. agreed to merge under the name of Mountain Province Mining Inc. The transaction was completed on November 1, 1997 through the issue of one common share of the new company for each existing MPV common share, and 16,951,696 common shares of the new company for 1,450,000 shares of 444965 B.C. Ltd.

The transaction has been accounted for using the purchase method whereby Mountain Province Mining Inc. was identified as the acquirer. The net assets acquired and consideration given were as below:

Net assets acquired:	
Mineral property	$ 936,044
Deferred exploration costs	11,163,956
	12,100,000
Liabilities assumed	—
	$ 12,100,000
Consideration given:	
Issuance of 16,951,695 common shares (Note 6)	$ 12,100,000

The 16,951,696 shares which were issued to Glenmore Highlands Inc., are restricted as to trading in that no more than one third of the shares could be sold or transferred within the first year from November 1, 1997, and no more than two thirds within the second year.

4. Marketable Securities

Marketable securities are carried at the lower of cost and market.

5. Mineral Properties and Deferred Exploration

Acquisition Costs:

	1998	1997
Ketza River Project	$ 27,582	$ 30,582
Molanosa Diamond Project	5,000	5,000
AK/CJ Claims	3,847,553	211,510
598909 Saskatchewan & Northern Saskatchewan Claims	95,000	95,000
Tobin Lake Area Claims	—	23,808
Mary Dale Property	—	90,000
Maris Project	28,683	—
	$ 4,003,818	$ 455,900

Deferred Exploration:

	1998	1997
Ketza River Project	$ 777,186	$ 777,186
Molanosa Diamond Project	614,428	614,428
AK/CJ Claims	29,171,171	13,405,392
598909 Saskatchewan & Northern Saskatchewan Claims	33,206	33,206
Maris Project	121,853	—
	$ 30,717,844	$ 14,830,212

a) **Ketza River Project**
The Company is the registered owner of certain mining claims situated in the Ketza River Gold Camp, Watson Lake Mining District, Yukon Territory. These claims were staked by the Company during the year ended March 31, 1988, at a total cost of $30,582. The Ketza River Project covers approximately 11,000 acres.

The Company entered into an agreement dated November 29, 1995 pursuant to which Artemis Ventures Inc. (Formerly Eurotech Technologies Inc.) will be entitled to earn an undivided 50% interest by expending $1,000,000 on the exploration, development and mining of the Ketza River claims, and by issuing to the Company a total of 200,000 of its common shares.

During the year, the Company received 25,000 shares of Artemis Ventures Inc., which were disposed of for $3,000. (See Note 11).

b) **Molanosa Diamond Project**
Pursuant to an agreement dated March 8, 1993, the Company acquired a 50% interest in 5 mineral claims situated in the Northern Mining District, Province of Saskatchewan. As consideration, the Company advanced $220,000 for exploration expenditures. In addition the Company staked 22 additional mineral claims which have been added to this option.

The Company formed a joint venture with the optionor pursuant to an agreement dated March 8, 1993, which agreement contains the standard dilution and other joint venture operating provisions.

c) **AK/CJ Claims**
Pursuant to an agreement dated August 18, 1992 and amended November 13, 1992 and January 8, 1993, the Company entered into an option with Inukshuk Capital Ltd. ("Inukshuk") to acquire a 100% undivided interest in certain mineral claims located in the District of Mackenzie, Northwest Territories. As consideration, the Company paid $380,000, issued 200,000 shares and spent $1,500,000 for exploration on the properties. The claims were subject to a 3% gross overriding royalty with a minimum advance royalty of $200,000 per year commencing five years from the date the Company earned its option in the claims. The Company had the right to acquire the 3% gross overriding royalty for $5,000,000 at any time until November 25, 1999. During the year ended March 31, 1997 an additional finder's fee of $50,000 was paid by the Company.

Pursuant to an agreement dated November 18, 1993 and subsequently amended, the Company optioned 40% of its interest in the AK/CJ claims to 444965 B.C. Ltd.As consideration the Company received $1,151,144.

Pursuant to an agreement dated August 16, 1994 and subsequently amended, the Company assigned another 10% of its interest in the AK/CJ claims to Camphor Ventures Inc. As consideration Camphor Ventures Inc. issued 400,000 of its shares to the Company, and contributed $200,000 towards exploration expenditures and agreed to fund 10% of future exploration work on the AK/CJ properties.

Pursuant to a joint venture agreement dated March 6, 1997 between the Company, 444965 B.C. Ltd. and Camphor Ventures Inc. (Collectively the "MP" Group) and Monopros Limited ("Monopros"), Monopros was granted the right to earn up to a 60% interest in the AK/CJ claims. As consideration Monopros subscribed for 209,644 units at a price of $4.77 each. Each unit consists of one common share of the Company and one non-transferable warrant to purchase one additional common share of the Company at $6.36 per share exercisable before March 6, 1999. Further, Monopros agreed to conduct an exploration program on the property, to complete a bulk sampling program and a feasibility study on one or more new kimberlites, and to fund the development and construction of a commercial mine.

During the year the Company paid $2,700,000 for its 90% share of the purchase of the 3% gross overriding royalty pursuant to the sale and settlement agreement dated June 18, 1997 and the amendment to the joint venture agreement dated September 17, 1997. (See Note 7).

As a result of the amalgamation as described in Note 3, the Company holds a 90% interest in the AK/CJ Claims.

d) **598909 Saskatchewan Claims & Northern Saskatchewan Claims**
Pursuant to an agreement dated January 17, 1994, the Company acquired a 50% interest in 15 mineral claims located in the Province of Saskatchewan. As consideration the Company paid $15,000 and issued 100,000 shares. In addition the Company incurred approximately $24,000 of exploration expenditures. The claims are subject to a 1% net smelter return and a 3% gross overriding royalty. Pursuant to agreements dated February 22, 1994 the Company acquired a 100% undivided interest in 43 mineral claims known as Northern Saskatchewan claims located in the Province of Saskatchewan. As consideration the Company paid $25,000 and issued 200,000 shares. The claims are subject to a 1% net smelter return and a 3% gross overriding royalty.

Pursuant to the agreements dated April 8, 1994 and March 15, 1995 the Company optioned 50% of its interest in 4 of the 598909 Saskatchewan claims and 32 of the Northern Saskatchewan claims. As consideration the Company received 35,000 common shares of War Eagle Mining Company Inc. and 35,000 common shares of Great Western Gold Corp. ("Candle Lake Joint Venture"). The Company will receive an additional 40,000 common shares of each company upon discovery of a diamondiferous kimberlite on the claims and an additional 20,000 common shares of each company upon the preparation and release of a feasibility study giving a positive recommendation for entering into production. Further, Kennecott Canada Inc. has agreed to incur expenditures on these claims as part of the Candle Lake Joint Venture to earn a 60% interest which would leave the Company with a 10% interest. Total work commitment by Kennecott Canada Inc. on the Candle Lake Joint Venture is $8,000,000. During the year Kennecott Canada Inc. abandoned the project.

e) Tobin Lake Area Claims

Pursuant to an agreement dated January 24, 1994, the Company acquired a 25% interest in mineral claim S-105084 located in the Tobin Lake Area, Province of Saskatchewan. As consideration the Company issued 38,400 shares and agreed to issue an additional 38,400 shares in the event that kimberlite is intersected at bedrock on the property. The claim is subject to a 3% gross overriding royalty. Under the terms of the agreement, the Company has the right to acquire 50% of the gross overriding royalty for $1,500,000. During the year management had decided to abandon these claims. Accordingly, the acquisition cost of $23,808 was written off.

f) Mary Dale Property

Pursuant to an agreement dated June 13, 1994, the Company acquired a 100% interest in three mineral claims located in the Northern Mining District, Province of Saskatchewan. As consideration the Company paid $10,000 and issued 100,000 shares. The claims are subject to a 3% gross overriding royalty. During the year management had decided to abandon this property. Accordingly, the acquisition cost of $90,000 was written off.

g) Maris Project

The Company owns a 100% interest in 99 Lode claims, totalling approximately 2045 acres, located in Nye County, Nevada, U.S.A.The claims are subject to a 1.5% net smelter return royalty payable to a company belonging to a director, and two other persons. Under the terms of the agreement the Company can acquire the royalty for $1,500,000.

6. Share Capital

a) Authorized

500,000,000 Common shares without par value.

b) Issued and fully paid

	Number of Shares	Amount
Balance, March 31, 1996	18,710,745	$ 9,682,976
Issued pursuant to exercise of special warrants	1,300,000	5,266,658
Issued pursuant to prospectus	2,675,000	12,189,975
Issued pursuant to exercise of stock options	1,074,000	4,644,498
Issued pursuant to exercise of agents options and warrants	166,875	781,531
Balance, March 31, 1997	23,926,620	32,565,638
Issued pursuant to a private placement	209,644	1,000,000
Issued pursuant to amalgamation (Note 3)	16,951,696	12,100,000
Issued pursuant to exercise of stock options	1,100,350	3,462,580
Issued pursuant to exercise of warrants	50,000	287,500
Issued pursuant to exercise of special compensation options and warrants	138,500	678,650
Balance, March 31, 1998	42,376,810	$ 50,094,368

See Note 11.

c) Stock Options

As at March 31, 1998 the following stock options were outstanding:

Number of Shares	Exercise Price	Expiry Date
50,000	$ 2.72	April 15, 1999
55,650	2.80	July 17, 1999
1,083,000	2.80	July 17, 2002
130,000	5.83	November 3, 1999
720,000	5.83	November 3, 2002
30,000	5.05	February 23, 2000
25,000	5.05	February 23, 2003

d) Share Purchase Warrants

As at March 31, 1998 the following share purchase warrants were outstanding:

Number of Shares	Exercise Price	Expiry Date
209,644	$ 6.36	March 6, 1999

7. Sales and Settlement Agreement

On March 27, 1997, Inukshuk Capital Ltd. ("Inukshuk") issued a petition in the Supreme Court of British Columbia asserting that it held a valid right of first refusal to purchase any interest in the AK/CJ claims and that the MP Group had breached this right by entering into an agreement with Monopros Limited ("Monopros") whereby it could earn up to a 60% interest in the property. Inukshuk also obtained an injunction restraining the MP Group and Monopros from disposing of the property.

On April 18, 1997 Inukshuk commenced arbitration proceedings against the Company. The arbitration held in favour of Inukshuk, finding that its right of first refusal was valid and subsisting. The petition, injunction and arbitration were dismissed and cancelled in pursuance of a sales and settlement agreement dated June 18, 1997 under which comprehensive mutual releases were exchanged as follows:

- the MP Group paid $3,000,000 for the purchase of the 3% gross overriding royalty and $500,000 for the right of first refusal from Inukshuk;
- the MP Group paid to Canamera Geological Ltd. ("Canamera") $250,000 by way of termination fee in respect of the termination by the MP Group of the operator agreement, and $200,000 in full and final settlement of actual or anticipated expenses relating to camp demobilization etc.;
- the MP Group paid John Dupuis $250,000 by way of compensation for alleged loss of reputation; and
- Canamera will convey to the Company good and marketable title to the camp assets.

See Note 5 (c).

8. Leasing Commitments

The Company's total minimum rentals for two operating leases, which expire on May 31, 1999 and July 15, 2001 are as follows:

1998	$ 43,277
1999	46,798
2000	38,738
2001	9,685
	$ 138,498

9. Related Party Transactions

- During the year the Company paid $160,000 (1997 - $174,920) for management services to a director of the Company.
- During the year the Company paid $47,355 (1997 - $72,688) for secretarial and public relations services to third parties related to a director of the Company.
- During the year the Company paid $243,352 (1997 - $205,335) for consulting, management and administration services to a director and to a company in which another director has an interest.
- The Maris Project property acquired during the year is subject to a 1.5% net smelter royalty in which a director has an interest. (See Note 5(g)).
- Included under accounts receivable is $8,490 (1997 - Nil) due by two companies in which there are common directors.

10. Comparative Figures

The comparative figures for the year ended March 31, 1997 were in respect of Mountain Province Mining Inc. prior to the amalgamation.

11. Subsequent Events

- Subsequent to March 31, 1998, 67,950 stock options were exercised to net the Company $190,260.
- Subsequent to March 31, 1998, Artemis Ventures Inc. had terminated the joint venture agreement on the Ketza River project.

12. Income Taxes

The Company has non-capital loss carry forwards available to reduce future taxable income as follows:

Year of Expiry	Amount
1999	$ 87,588
2000	397,322
2001	428,999
2002	586,350
2003	593,266
2004	1,659,784
2005	1,888,755
	$ 5,642,064

No recognition has been given in the consolidated accounts to the potential future benefits that may arise on utilization of tax losses.

The Company has filed for Canadian Exploration Expenditures totalling $22,138,265 and Canadian Development Expenditures totalling $4,697,168 which are available to reduce future taxable income.

Officers & Directors:

Paul Shatzko, M.D.
Chairman & Director

Jan W. Vandersande, Ph.D.
President & Director

Jesus R. Martinez, M.Sc., P.Eng.
Secretary & Director

Carl G. Verley, P.Geol.
Director

David E. Whittle, C.A.
Director

D.H.W. Dobson
Director

Shares Traded:

Vancouver: Symbol MPV
NASDAQ: Symbol MPVIF

Capitalization:

Shares Authorized	500,000,000
Shares Issued	42,444,760
Fully Diluted	44,680,104

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Province
Mining Inc.